



# Accounting for Federally Defined Allowable and Unallowable Costs

## 1. General

The federal government funds the *direct* costs of numerous Citrus College activities, including research, instructional, and training projects. The government also provides funds to Citrus College to support the *indirect* costs of the college associated with sponsored projects. Although Citrus College has established policies relating to allowable expenditures, the federal government has additional requirements and limitations. This guidance outlines the federal regulations that govern accounting for both direct and indirect costs associated with federally-sponsored programs and describes policies and procedures designed to ensure compliance with the regulations.

In some instances, federal regulations for allowable costs are more stringent than the Citrus Colleges criteria for allowable expenditures. Since these regulations apply to both direct and indirect costs, compliance affects all Citrus College departments, not just those accountable for sponsored programs.

For projects sponsored by non-federal sources, Citrus College policies on allowable expenditures shall apply unless the sponsoring agency or organization has additional requirements or limitations. Refer to specific agreements for definitions of allowable and unallowable costs for such sponsored projects.

## 2. Federal Regulations

Regulations issued by the federal government and its agencies define cost principles to be applied and set limits on the costs that may be charged to the government under federally sponsored agreements. Listed below are the federal regulations that govern the administration of these costs.

### 2.1. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

The Office of Management and Budget in Subpart E ("Cost Principles") of 2 CFR Part 200 ("Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards") (Uniform Guidance) defines cost principles for entities that receive federal funds, in the form of grants, cooperative agreements, and contracts. These cost principles:

- Explain the factors that determine the allowability of costs;
- Describe types of direct and indirect costs; and
- Provide guidance on the allocation of indirect costs for the purpose of preparing an indirect cost proposal.

### 2.2. Federal Acquisition Regulations (FAR)

The Federal Acquisition Regulations (FAR) contain the procurement regulations and purchasing procedures pertaining to federal government contracts. FAR 31.3, 48 CFR Part 31, Subpart 31.3, determines the allowability of costs.



### **2.3. Subpart C of the Uniform Guidance**

Subpart C ("Pre-Federal Award Requirements and Contents of Federal Awards") of the Uniform Guidance defines pre-award administrative requirements for grants, cooperative agreements, and contracts.

### **2.4. Subpart D of the Uniform Guidance**

Subpart D ("Post Federal Award Requirements") of the Uniform Guidance defines post-award administrative requirements for grants, cooperative agreements, and contracts.

### **2.5. Supplemental Regulations**

Additional policies and regulations vary among sponsoring federal agencies and individual programs. Copies of can be found on the websites of the cognizant federal agency.

## **3. Allocation of Costs**

The allocation of costs is the process of assigning individual costs to the appropriate cost center, in reasonable and realistic proportion to the benefit provided to that cost center. A cost may be assigned to a cost center either directly, or indirectly through indirect cost pools. The total cost charged to a sponsored project is made up of allowable direct costs required for its performance, and allowable indirect costs.

### **3.1. Cost Centers**

A cost center is a specific Citrus College function or activity for which costs are accumulated in the college's Banner Finance System. Examples of cost centers include Citrus College units with a specific budget, particular services and programs, and specific sponsored projects.

### **3.2. Direct and Indirect Costs**

#### **3.2.1. Direct Costs**

Direct costs are costs that can be identified specifically with a particular sponsored project or other Citrus College activity and that are charged directly to the account assigned to that project or activity. The college treats the following types of expenditures incurred in the performance of sponsored work as direct costs charged to sponsored projects:

- Salaries, wages, and proportional fringe benefits of personnel directly engaged in the sponsored project
- Cost of equipment, materials, and services
- Travel and transportation expenses
- Consultant fees
- Subcontracts
- Telephone charges
- Postal charges
- Space rental
- Other allowable costs per the terms of the agreement



### 3.2.2. Indirect Costs

Indirect costs consist of costs incurred for more than one (1) cost center, and costs that cannot be easily identified with a specific sponsored project or other Citrus College activity. Indirect costs include the following types of costs:

- An allowance for the use of Citrus College buildings
- An allowance for the use of Citrus College equipment
- The cost of operating and maintaining Citrus College facilities
- The cost of maintaining the Citrus College library
- General administrative expenses
- Expenses associated with the administration of student services
- Departmental administrative expenses
- Expenses associated with the administration of sponsored programs

## 4. Allowability of Costs

All costs must first comply with Citrus College policies on allowable expenditures. Costs must then be evaluated according to the federal definition of allowable and unallowable expenditures. These standards apply to both direct and indirect costs-supported by either institutional funds (unrestricted) or sponsored funds (restricted).

### 4.1. Allowable Costs According to Citrus College Policy

Citrus College policies regarding allowable costs are intended to ensure compliance with state and federal laws where applicable, and to ensure fiscal accountability. The college's policies regarding allowable costs are defined in the following sections of the *Citrus College Board Policies (BP) and Administrative Policies (AP)*:

- Chapter 4-Instruction policies address field trips and excursions;
- Chapter 6—Business and Fiscal Services policies address fiscal management, purchasing, bids and contracts;
- Chapter 7-Human Resources policies address employee qualifications and compensation.

### 4.2. Allowable Costs According to Federal Regulations

Federal regulations define allowable costs in the Uniform Guidance and the FAR, Part 31.3. According to Section 200.403 of Subpart E of the Uniform Guidance, a cost may be charged to a sponsored program only if it meets *all* of the following criteria:

- It must be necessary and reasonable for the performance of the award;
- It must be allocable to the sponsored program;
- It must be treated consistently through the application of generally accepted accounting principles;
- It must be within the limitations specifically defined in Subpart E of the Uniform Guidance and the particular contract or agreement, in terms of the type of cost item and dollar amount charged;
- It must not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period; and
- It must be adequately documented.



#### **4.2.1. Reasonable Costs**

Costs are considered to be reasonable if the goods or services acquired and the dollar amount of the cost:

- Reflect a prudent and responsible action;
- Are necessary;
- Are in accordance with all applicable external regulations and terms; and,
- Are consistent with Citrus College policies governing the action.

#### **4.2.2. Allowability or Unallowability of Selected Cost Items**

Subpart E ("Cost Principles") of the Uniform Guidance defines principles to be applied in determining the allowability or unallowability of certain types of costs. In particular, Sections 200.421 through 200.475 of Subpart E of the Uniform Guidance describes fifty-five (55) selected types of cost items. In case of a conflict between the Uniform Guidance provisions and the provisions of a specific agreement, the terms of the agreement apply.

The following cost items are **unallowable** according to Sections 200.421 through 200.475 of Subpart E of the Uniform Guidance, although some of these expenditures may be allowable under Citrus College policy. Section 5, herein, describes accounting procedures for expenditures that are allowable by Citrus College policy but are unallowable per federal regulations.

- Alcoholic beverages
- Alumni activities
- Bad debts
- Commencement and convocation costs
- Contingency reserves
- Donations and contributions
- Entertainment costs
- Fund raising costs
- Goods and services for personal use
- Lobbying costs
- Losses on other sponsored agreements
- Membership in country clubs, or social or dining clubs or organizations
- Selling and marketing costs
- Student activity costs

Other cost items may be unallowable depending on the circumstances. Refer to Sections 200.421 through 200.475 of Subpart E of the Uniform Guidance for full detailed information on the allowability or unallowability of cost items.

#### **4.2.3. Facilities and Administrative (F & A) Costs--Excludable**

Citrus College is required to identify charges that are unallowable according to federal regulations. Such costs must be excluded from cost pools used to calculate indirect cost rates. Citrus College refers to these costs as "F & A excludable."



## 5. Review Process

Each expenditure document submitted by a Citrus College department or a subawardee is reviewed for cost allowability and includability by the grant or project manager to determine if:

- The cost(s) are allowable
- The cost(s) are consistent with the grant and/or subaward.

Fiscal services then reviews expenditures to determine if:

- The charge is correctly accounted for, and
- The cost is F & A excludable.

An expenditure document will not be approved until the review process has been completed. The steps in the review process are as follows:

(1) All expenditures are reviewed for compliance as defined in Section 4.1 herein.

- If the expenditure complies with Citrus College policies, the accountant proceeds to Step (2) for restricted funds and Step (3) for unrestricted funds.
- If the expenditure does *not* comply with Citrus College policies, the accountant returns the document to the submitting department, with an explanation.

(2) Costs charged to sponsored projects are reviewed for allowability according to the Uniform Guidance and/or the terms of the specific contract or grant.

- If the expenditure is allowable, the accountant approves it and proceeds to Step (3).
- If the expenditure is *not* allowable, the accountant returns the document to the submitting department, with an explanation.

(3) Citrus College is required to identify and segregate costs excludable according to Uniform Guidance to ensure that they are not included in indirect costs charged to sponsored programs. Costs are reviewed for excludability, regardless of whether they are charged to federal or other funds.

- If the expenditure is allowable according to Subpart E of the Uniform Guidance, it is approved as it stands.
- If the expenditure is *not* allowable according to Subpart E of the Uniform Guidance, an appropriate account code should be selected to classify the expenditure as F & A excludable. The basis for usage of these account codes is determined by the nature and purpose of the specific expenditure.